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FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 5685
INFO RUCNCIS/CIS COLLECTIVE 1699
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUEHZN/EUROPEAN POLITICAL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1066
RUEHKO/AMEMBASSY TOKYO 1768
RUEHUL/AMEMBASSY SEOUL 0734
RHEBAAA/DEPT OF ENERGY WASHDC
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RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 1250
RUEKJCS/SECDEF WASHDC 1167
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RHMFIUU/CDR USCENTCOM MACDILL AFB FL

UNCLAS SECTION 01 OF 02 ASTANA 001089

SIPDIS

STATE FOR SCA/CEN, EEB/ESC

E.O. 12958: N/A

TAGS: PGOV PREL ECON EINV EPET KZ

SUBJECT: PRESIDENT NAZARBAYEV URGES FOREIGN COMPANIES TO CONTINUE INVESTING IN KAZAKHSTAN

¶1. SUMMARY: On June 12, in the provincial northern city of Kostanai, President Nazarbayev convened the 21st plenary session of Kazakhstan's Foreign Investors' Council (FIC). Nazarbayev encouraged foreign companies to continue investing in Kazakhstan's economy and discussed the country's plan for accelerated industrial development. He assured foreign investors that Kazakhstan would continue to adhere to the principles of a market economy and protect private property rights, but also stressed the importance of the use of local content in investment projects. The next FIC meeting, scheduled for December 4 in Astana, will address the involvement of foreign investors in Kazakhstan's plans for economic diversification and technological development. END SUMMARY.

21ST FIC PLENARY

¶2. The Foreign Investors' Council (FIC) is an advisory body established by presidential decree on June 30, 1998 to promote direct dialogue between the Government of Kazakhstan and foreign investors. On June 12, President Nazarbayev chaired the 21st plenary session of the FIC, which was held in Kostanai. This year's theme was "Alternative Sources of Financing for the Future Economic Development of Kazakhstan Under Changing Conditions in the World Financial Market." Over 170 foreign business executives representing the world's largest transnational companies -- including ExxonMobil, Chevron, ArcelorMittal, LukOil, Mitsubishi, Total, Philip Morris, and others -- attended the plenary.

KAZAKHSTAN MAKES PLAN FOR NEXT FIVE YEARS

¶3. At the FIC plenary, Nazarbayev announced that the first signs of an improving economic environment were already evident in Kazakhstan thanks to a government bailout package of more than \$19 billion (approximately 14% of Kazakhstan's GDP). Minister of Economy and Budget Planning Bakhyt Sultanov echoed Nazarbayev, explaining that "since the beginning of the year, foreign investment has amounted to 44% of total investment in fixed capital, which was almost twice as much as the reporting period the previous year." Sultanov maintained this indicates continued investor trust in the Kazakhstani government.

¶4. In 2010, Kazakhstan will officially launch a five-year plan for accelerated industrial innovation and development. According to

Nazarbayev, if the plan is successful, in ten years, Kazakhstan will generate \$50 billion of value-added in manufacturing, which is almost 50% of the country's present day GDP. Nazarbayev listed agriculture, construction, oil refining, metallurgy, chemicals, pharmaceuticals, power generation, and infrastructure as priority sectors for development over the next five years. Nazarbayev estimated that Kazakhstan could immediately mobilize as much as 12% of its current GDP to facilitate the development plan. He also said that "trading in national quotas for greenhouse gas emissions within the Kyoto Protocol may become one of the alternative sources of financing. This may open new up opportunities in energy-saving technologies that will allow attraction of up to \$1 billion in investments."

CALLS REPEATED FOR INCREASED LOCAL CONTENT

15. Nazarbayev reiterated Kazakhstan's commitment to developing local content and increasing the percentage of locally produced goods and services utilized by foreign companies operating in Kazakhstan. He reminded participants that this issue was discussed in detail at the December 2008 FIC meeting in Almaty, and noted some "positive results that have been achieved recently: mineral resource companies have signed memoranda with Kazakhstani producers totaling 330 billion tenge (\$2.2 billion) and contracts totaling over 200 billion tenge (\$1.33 billion)." Nazarbayev instructed the government and the Ministry of Industry and Trade to work closely with foreign investors and Kazakhstani manufacturers to increase the supply of domestic goods and services.

NEW INVESTMENT PROJECTS

16. Nazarbayev acknowledged that foreign investors will have to play

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a critical role in achieving the ambitious goal of developing \$50 billion in value-added manufacturing in the next ten years. He said that the Customs Union among Russia, Belarus, and Kazakhstan will create new opportunities for investment in a unified market that has over 168 million people and a combined GDP of \$2 trillion. Nazarbayev assured foreign investors that Kazakhstan would continue to adhere to the principles of a market economy, and protect private property rights, as guaranteed by the Kazakhstani Constitution and other laws.

17. "A favorable investment climate in our country allowed many companies to increase their investments. In the last 8 years, Kazakhstan received \$46 billion in investments," Nazarbayev reported. He referred to a series of meetings held prior to the FIC with foreign investors who expressed their interest in various sectors of economy. "We agreed with Chevron CEO David O'Reilly to double the capacity of the Atyrau polyethylene pipe plant, and construct a new valve plant and shipyard on the Caspian Sea. This is a very good sign," he added. Nazarbayev also hailed ArcelorMittal for building a pipe production plant in Aktau, and Saipem for working with a Kazakhstani investor to construct a fabrication yard. "The Vice President of Eni has pledged to build a gas processing plant and gas-fired power plant in Kazakhstan," said Nazarbayev. He also announced that Kazakhstan's ENRC plans to construct new ferroalloy facilities. "We are very grateful for those projects," he concluded.

INVESTORS HOPE GOVERNMENT WILL PLAY POSITIVE ROLE

18. Lukoil President Vagit Alekperov explained at the FIC plenary that his company's willingness to invest is contingent upon the legal environment. "We need a stable, but at the same time a flexible tax system, an active role by the state in the conclusion of development contracts, and the elimination of bureaucratic obstacles to the acquisition of Kazakhstani assets by foreign investors." ExxonMobil Senior Vice President Marc Albers had similar recommendations saying the "the Government of Kazakhstan has several ways to help investors, including the simplification of required procedures for foreign companies to enter the domestic market in Kazakhstan, as well as the improvement of regulations for the opening of joint ventures."

¶9. EBRD President Thomas Mirow acknowledged the difficulties in attracting investment in the current climate. He, did however, praise Kazakhstan's willingness to modify its approach to meet the demands of a changing environment. Eni Vice President Umberto Virgine reconfirmed his company's readiness to support new sectors of the economy and create new joint ventures. Expressing his hope that the new development plan would accelerate Kazakhstan's economic growth, Chevron Vice President George Kirkland said that Kazakhstan's reaction to the global economic crisis could serve as an example to the world community.

NEXT FIC PLENARY SCHEDULED FOR DECEMBER

¶10. The next plenary session of the FIC is scheduled for December 4 in Astana, and will be devoted to the role of foreign investors in Kazakhstan's plan for economic diversification and technological development.

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